



MACEDONIA AGRIBUSINESS MARKETING ACTIVITY

USAID Contract No. 165-0024-C-8100-00

FINAL REPORT

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Attachment: Graphs of Selected Project Results

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I. Executive Summary

From April 1998 to September 2003, Land O'Lakes implemented the Macedonia Agribusiness Marketing Activity (MAMA), a five-year, USAID-funded contract designed to support the development of Macedonia's private sector agribusinesses and thereby contribute to the country's economic growth. MAMA project activities assisted the Macedonian meat and dairy industries to achieve dramatic growth via a comprehensive market-driven strategy and the fostering of the creation of a well-functioning and competitive market that rewarded quality through increased sales and profitability.

The centerpiece of MAMA was the Seal of Quality (SOQ) activity. This initiative was based on the premise that food quality is the foundation for success in world food markets. It entailed the establishment of a national Association of Meat and Dairy Processors and collaboration with the group to design a program that: (1) enabled producers of processed milk and meat products to meet improved quality standards; (2) established a system to verify that these standards continued to be met on an ongoing basis; (3) awarded these products with a Seal of Quality for display on their packaging; and (4) promoted these products and their quality and value to consumers nationwide through an intensive marketing campaign.

In addition, the project assisted the country's sheep industry through an extensive cottage industry standardization and branding program. Following the establishment of thirteen local and regional shepherd associations, the project helped the groups to establish production and quality standards for their sheep cheese production. Individual regional brands and packaging were created for each of the associations in order to enable members to transform their cheese from a commodity into a branded product to be sold at a premium price. A varied program of technical assistance activities facilitated the production of products of increased consistent quality, thereby giving the newly developed brands real value.

Results from the MAMA activity were impressive and included:

- A tripling in the size of the country's meat processing industry and a 44% increase in the size of the dairy industry;
- Significant increases in sales and profits in every year of the project for the majority of client firms;
- 40 companies broadening their product line with 162 new products;

- Increased market share versus imports for Macedonian processed meat and dairy products;
- Participating processors investing over \$20 million in their own facilities over the life of the project;
- The formation of 223 new strategic partnerships between processors and retailers;
- A reduction in production costs for 50% of client firms;
- The achievement of Seal of Quality certification by 37 firms for 205 products;
- The formation of 17 independent and sustainable industry associations.

The present document outlines in detail the project's strategy, implementation, and results achieved. In addition, it takes an extensive look at lessons learned from project implementation.

II. Project Background

From April 1998 to September 2003, Land O'Lakes implemented the Macedonia Agribusiness Marketing Activity (MAMA), a USAID-funded initiative designed to support the development of Macedonia's private sector agribusinesses and thereby contribute to the country's economic growth. MAMA project activities focused on assisting the Macedonian meat and dairy industries to achieve dramatic growth via a comprehensive market-driven strategy and the fostering of the creation of a well-functioning and competitive market that rewarded quality through increased sales and profitability.

The project represented a response to the situation in which Macedonian agribusiness found itself in the late 1990s. In 1997, the Macedonian agricultural sector was marked by major decline. Despite the country's strong agricultural heritage, the break-up of Yugoslavia nearly a decade earlier had left its mark on Macedonia's food sector. Not only had the former state-run farms and processing enterprises been cut off from the production subsidies that had previously come from the government, but many links with traditional market outlets within other Yugoslav republics had broken down as well. These problems were compounded by the fact that in Yugoslavia Macedonia had primarily played the role of a raw material producer, supplying the processing industries based in other republics. Thus, as Macedonia liberalized its economy, an increasing variety of imported food products made their way onto local shelves to fill the void.

In the wake of (and, in some cases, prior to) Macedonian independence, a number of Macedonian entrepreneurs turned to the difficult task of building a domestic food processing industry. New businesses created from privatized state enterprises typically suffered from inefficient and outdated equipment, and were too large to be run profitably at the limited processing levels permitted by available inputs and financing. As a result, many of them failed, while those surviving had difficulty maintaining stable production levels. At the same time, new facilities built from the ground up were often small, fledgling operations, producing a limited number of products and marketing them in substandard packaging. Inconsistent quality, together with a lack of standardization and branding, made it difficult for consumers to differentiate between high- and low-quality domestic food products in the marketplace. As a result, consumers were increasingly attracted to the growing variety of imported, branded products.

It was in this context that USAID issued a request for proposals (RFP) aimed at fostering an "environment for the agribusiness sector in Macedonia to provide (for) domestic food requirements." Identifying the existing food marketing system in Macedonia as a major constraint to this effort, the RFP called for assistance to processors to identify and meet consumer needs and desires through the adoption of demand-driven marketing practices. In response, Land O'Lakes developed the Macedonia Agribusiness Marketing Activity (MAMA), the centerpiece of which was the Seal of Quality program. This effort was supplemented by assistance to the nation's sheepherders, many of whom were involved in small-scale processing of their own production.

III. Project Strategy

The MAMA project's strategy was to enable Macedonian agribusinesses to achieve market success through the consistent production of quality products. This involved efforts to instill quality standards in every step of the marketing process, including procurement, processing, distribution and sales. It included marketing and branding programs and practices that communicated quality values to consumers, and that raised both real and perceived quality standards.

The project's goal was to stimulate rapid development of the meat and dairy producers' and processors' operations through:

- Improving the technical and management capabilities of the industries;
- Supporting development of a positive policy environment for the agribusiness sector in Macedonia;
- Providing domestic food requirements; and
- Penetrating regional markets with high quality, diversified food products.

More specific project goals were to grow consumer demand for, and the supply of, recognized, high-quality Macedonian meat and dairy products. Land O'Lakes achieved these goals through an aggressive, industry-led transition to the production of local, higher-quality, branded food products that became widely recognized and preferred by customers for their superior quality. The framework for this effort was the Macedonia Seal of Quality program, which consisted of three major components:

- The establishment of transparent systems for certifying products and for monitoring and enforcing compliance with the required quality standards;
- The provision of assistance to candidate companies in the manufacturing and marketing of Seal of Quality products to maximize overall efficiencies and profitability; and,
- The building of consumer awareness and confidence in the Seal of Quality in order to increase consumer demand for those products certified with the Seal.

A number of results were generated from this program including firm level marketing plans, new product development, new capital equipment expenditures, entry into new markets, expanded production volumes, increased profits, and an improved enabling environment. An additional key output was the Seal of Quality Program itself, which became recognized and rewarded by consumers and utilized across the country's dairy and meat sectors.

The premise of MAMA's Seal of Quality program was that food quality is the foundation for success in world food markets. This principle is a fundamental reason why Land O'Lakes has been able to propel itself from a small regional dairy cooperative into a six-billion-dollar global agribusiness corporation. By developing premium products and branding them with the Land O'Lakes name and its Indian Maiden logo, the company

has been able to build a widely recognized and respected symbol of wholesome quality. Consequently, when consumers see the familiar Land O'Lakes insignia, they know that they can have confidence that the product will meet the company's exacting quality standards.

The Macedonian Seal of Quality activity took this same principle and applied it across that country's meat and dairy processing industries. Working together with leading companies in both of these sectors, Land O'Lakes helped to form the National Association of Private Meat and Dairy Processors in Macedonia. The association is a democratic, self-managed organization dedicated to promoting the interests of its members through a variety of activities, including the SOQ Program. Founded in 1998, the group accomplished a great deal over its first year of existence, including the development of transparent procedures for evaluating applications for the Seal of Quality and the adoption of a set of quality standards that meat and dairy products must meet to receive this certification. At the same time, MAMA established an independent food laboratory to conduct tests on products submitted for certification and helped to design the Seal itself for use on certified products and in the activity's marketing and promotional efforts. The Seal features an image of Macedonia's national symbol, the sun, circumscribed by the phrase "With Pride from Macedonia."

The SOQ certification process that was developed consists of nine steps. They include: 1) a processor joining the association, 2) the processor applying for the SOQ for a specific product, 3) the association drafting and adopting a description of the standard procedure for production of the product, 4) the processor's plant undergoing a physical inspection, 5) the product in question undergoing chemical and microbiological testing at the MAMA laboratory, 6) testing for legal requirements at the lab of the State Veterinary Institute, 7) sensory testing by an independent certification team, elected by the association, which consists of representatives from the association, Land O'Lakes, the Veterinary Institute, and Cyril and Methodius University's Agricultural Department, 8) the certification team recommending certification if all of the above tests are passed, and 9) the managing board of the association verifying the testing procedure and awarding the product with the Seal of Quality. Then, step five -- testing product samples at the MAMA lab -- is repeated on a monthly basis to ensure that the product continues to meet SOQ standards.

As association members began submitting applications for certification, a national survey of consumers was initiated to help gain insight into their tastes and preferences vis-à-vis dairy and meat products. The resulting findings helped to shape a marketing effort that was timed to coincide with the first products being awarded with the Seal. Although it is an expensive component of the SOQ program, promotion is essential since increases in quality facilitated by the program may have only a limited effect on sales if the public is not informed about it. Therefore, the marketing campaign was designed in close collaboration with Macedonia's premier marketing agency, and major project funding was devoted to this activity. These efforts consisted of an introductory public relations campaign and pilot program in selected retail outlets, followed by a national promotional campaign. The national campaign consisted of six phases designed to introduce the Seal,

build awareness, deepen understanding, change consumer behavior, and then remind and reinforce these habits and awareness in the mind of the consumer

Over the next four years of the project, monthly testing of SOQ products continued. The association expanded through the addition of many new members and numerous additional products were awarded with the Seal. In addition, certification standards were strengthened, and five additional phases of the marketing campaign were implemented to increase consumer awareness of the Seal and the products it certified.

Assistance to the country's cottage industry shepherders reflected many of the same principles. Rather than incorporate their production into the national Seal of Quality program; however, Land O'Lakes worked to create quality standards on a local and regional level. Following the establishment of thirteen local and regional shepherder associations, the project helped the associations to establish production and quality standards for their sheep cheese production. Individual regional brands and packaging were created for each of the associations in order to enable association members to transform their commodity cheese into a branded product at a premium price. A robust menu of technical assistance activities facilitated the increased consistent quality that gave the newly developed brands real value.

IV. Project Activities and Outcomes

a. Seal of Quality Program

The Seal of Quality program was designed with a four-pronged approach in order to be responsive to the diversity of the client base, who were at varying stages of development, and to ensure that the services provided were effecting change at both the industry and firm levels.

Supporting the Formation and Functioning of a National Meat and Dairy Processors' Association

The association's general goal was to impact the long-term transformation of the Macedonian meat and dairy industries by providing services to its members in the following areas:

- Overall product quality procedures through the establishment of a Certification Board that administered the Seal of Quality program and provided links with the relevant government and academic institutions;
- Policy areas that impacted the meat and dairy industries; and,
- Training programs and market information to enable members to gain additional skills and business insights.

Specific Outcomes

- The association became one of the largest food industry associations in the country.
- The association united over 100 meat and dairy processing firms, ranging from small family businesses to the largest processing capacities in the country, which together represented over 90% of the total production capacities in both industries.
- The association undertook a variety of activities that supported the development of its members' businesses, and published 12 policy white papers that influenced the economic conditions for both industries.

Developing Quality Control Systems, Technology Procedures and New Products

The core group of quality and technology related activities under the Seal of Quality program included:

- Development of quality standards for a variety of meat and dairy products;
- Quality control and compliance systems on an individual firm level;
- Certification procedures, including permanent laboratory testing of products' microbiological and chemical parameters and organoleptic conditions;
- Monitoring of production processes and sanitary conditions in the production facilities.

In addition, the MAMA project provided comprehensive assistance to its clients in the development of new products and production technologies.

Specific Outcomes

- Seal of Quality standards and certification procedures that were developed exceeded the applicable Macedonian legislation and were consistent with international requirements.
- Services for facilitating compliance with SOQ standards were provided to over 60 meat and dairy processors.
- 37 processors adopted SOQ standards and practices and received SOQ certification for 205 products.
- Support was provided to over 50 meat and dairy processors regarding various aspects of new product development: raw material procurement and handling, equipment capabilities, production procedures, and product formulations.
- This comprehensive range of services resulted in 162 new meat and dairy products being introduced into the market.

Developing Marketing Expertise

Marketing services assisted both the industries and individual clients to take advantage of domestic market opportunities, as well as to identify regional market requirements, through:

- Developing a market information system (consumer insight, ad hoc research studies, distribution and pricing audits, and market structure studies);
- Supporting marketing and sales activities (strategic marketing planning, assessment of new product opportunities, and distribution support);
- Implementing promotion and advertising programs (Seal of Quality promotion campaign, marketing communication planning, and communication plan implementation).

Specific Outcomes

- The development of a market information system that prepared quarterly “Situation and Outlook” reports for the meat and dairy industries, as well as quarterly “Distribution and Pricing” audits.
- Additional ad hoc consumer research investigations provided consumer insight information related to attitudes, habits, patterns and perceptions that were relevant to meat and dairy product consumption.
- Over 80 firm-level marketing plans were developed to assist the meat and dairy industries to adequately respond to market opportunities identified.
- Facilitation of strategic partnerships between processors and retailers/wholesalers resulted in 49 firms entering into more than 220 new regional and local markets in the country.

- Meat and dairy processors had continuously increased sales, with average annual increases of over 30 percent.
- A national promotion campaign was designed and implemented to build the SOQ brand in the marketplace, resulting in 85% awareness and recognition.
- The promotion campaign changed consumers buying habits in favor of SOQ products and stimulated products' demand among the 89% of Macedonian consumers who regularly purchased SOQ products.
- In addition, implementation of customized firm-level communication programs for over 30 meat and dairy processors was supported.

Developing Business and Financial Management Expertise

Objectives of this assistance were to improve clients' overall business and financial management skills and to assist them in analyzing business risks and opportunities through:

- Strengthening management skills, strategic planning, market information analysis, identifying and analyzing economic and regulatory policy issues;
- Business planning, financial feasibility studies, fixed capital purchases analysis, business financial modeling and business decision analyses.

Specific Outcomes

- Business and financial management support was provided to over 40 meat and dairy processors and included the preparation of business plans, investment proposals, feasibility studies, and new product cost analyses.
- This activity, combined with the above-described comprehensive approach, facilitated nearly 15 million dollars of new investment by meat and dairy processing clients.

b. Retail Sector Assistance

The original design of the MAMA project did not envision an assistance component to the retail sector. However, as the project evolved, it became clear that the Seal of Quality Program needed to consider each link in the quality chain, retail being one of them. When the initial SOQ products were certified and the SOQ promotion campaign progressed, the need for better marketing of domestic high-quality meat and dairy products became increasingly apparent. These products were no longer commodity products but value-added ones, which increased the need for their prominent placement and promotion at the retail level. At that point, while SOQ had been making significant progress at the processor stage and had aggressive goals for consumer outreach, a critical link in the farm-to-table flow had not been addressed. Therefore, in order to improve the promotion of SOQ products and to tap into new markets and increased sales volume of the products, the MAMA project started an activity of building strategic partnerships between those private meat and dairy processors with SOQ-certified products and prominent key retailers located throughout the country. Partnership activities were also facilitated between the retail community and sheep breeder associations. Through the

duration of the project, the number of these Strategic Partnerships exceeded 220 in number.

At the same time, retailers recognized that they played a critical role in maintaining product quality between the manufacturer and the final consumer. They sought technical assistance from the project regarding food handling and food safety. They also solicited help in areas related to inventory control and management and store merchandising. Review of retail operations revealed a lack of proactive management, not only of the meat and dairy cases, but of entire retail stores as well. In addition, existing corporate systems and procedures (for multi-unit grocers) did not reflect a strong understanding of the principles of contemporary grocery retailing. This became evident at all levels and in all departments, from store planning and inventory management to in-store personnel training and product merchandising.

Thus, the MAMA project conceptualized a Retail Assistance Program based on a commitment to improvement and high receptivity to SOQ products and promotion shown by the retail community.

The objective of this program was to support Macedonian grocery retailers in improving their sales and profits by providing support on both the corporate and store levels through customized education, consultation and evaluation activities. Starting in 1999, more than 140 retail outlets were assisted by the two components comprising the overall program:

- The Commitment to Excellence Program: an educational component consisting of the following training modules:
 - Customer service;
 - Retail inventory management;
 - Store merchandizing and promotion; and
 - Food handling and safety.
- The Consultancy Assistance Program: consulting support to individual retail clients consisting of one-on-one training follow-on activities and monitoring and evaluation of the training program's impacts.

Specific Outcomes

The activities resulted in strengthening of retail management capabilities in the country and contributed to overall development of the retail businesses, including the following specific achievements:

- Increased retail net sales of 27.5% annually (average increase of 19% during 2000 and 36% during 2001);
- New capital investments (over \$4,000,000 was invested during 2001);
- New store openings (62 retail outlets from the total 146 retailers that have been assisted since 1999, or 42%, are new store openings, and within 2002 the project developed ten action plan for new store openings);

- Increased employment (over 30% of the assisted retailers have increased their number of employees during 2001).

One of the key outcomes from the project's work with the retail community was the growing level of "cohesiveness" among the retailers. MAMA provided assistance to the retail sector in formalizing their mutual interest through the formation of their own association. While the Macedonian Retail Association was in its initial phase of existence, Land O'Lakes provided technical assistance in the benefits of associations, principles underpinning associations, management responsibilities and duties, association membership, the importance of association bylaws, and initial training for the Association Management and Supervisory Boards. Over 40 retail businesses became members of the association, including deli stores, independent retail outlets, and the largest retail chains operating in the country.

c. Sheep Sector Assistance

Sheep Sector Assistance Program

The MAMA approach was also applied to the sheep breeder cottage industries in the country. Objectives included an increased level of sheep and lamb production, expanded exports and improved profitability at the farmer level. A collateral objective of the effort was the promotion of ethnic harmony through increased business activity within and among ethnically mixed sheep breeder associations. Beginning in September 2001 the project implemented an activity referred to as the Sheep Product Marketing Initiative under the Ethnic Harmony Program. These associations were the main vehicle to offer small producers a competitive advantage in supply acquisition, marketing and policy advocacy. The project facilitated the formation of the associations and provided support to improve their management capabilities. More than 700 farmers were organized into 13 local and two regional associations.

The integrated assistance provided to these associations related to:

- Production practices, product quality standardization and quality control systems;
- Marketing planning based on market information and product distribution and promotion; and
- Business, financial and investment analysis.

Specific Outcomes

As a result of these activities, the industry moved from a commodity-based focus toward one with a value-added orientation. This resulted in increased profitability and overall development of cottage industry operations. Specific results included:

- The introduction of the branding concept to the majority of the assisted farmers (specifically, 10 association-level sheep cheese brands were developed);
- Increased sheep cheese unit prices of approximately 10% annually;

- Increased production and sales volume of approximately 2.5% annually;
- New capital investment (30% of assisted farmers increased fixed assets value in 2001 by approximately 24% versus 2000);
- A more organized marketing approach to the export of lamb on an association level, including the establishment of direct linkages between associations and foreign importers.

During the latter stages of this initiative, increased emphasis was placed on helping the sheep industry formulate a long-term growth strategy. Specific objectives were to increase the production of sheep cheese and lamb meat, and in turn, to increase the level of exports of both product categories. In this process, there was close collaboration between the project and the industry stakeholders, which included producers, exporters, slaughtering facilities and relevant supporting institutions, including government, veterinary services, and training and scientific institutions. The strategy development process consisted of four main steps:

- Identification and prioritization of issues and concerns;
- Determination of the most appropriate solutions for priority issues;
- Industry agreement on solutions/actions to be adopted; and
- Formulation of a long-term industry strategy and action plan.

V. Project Results

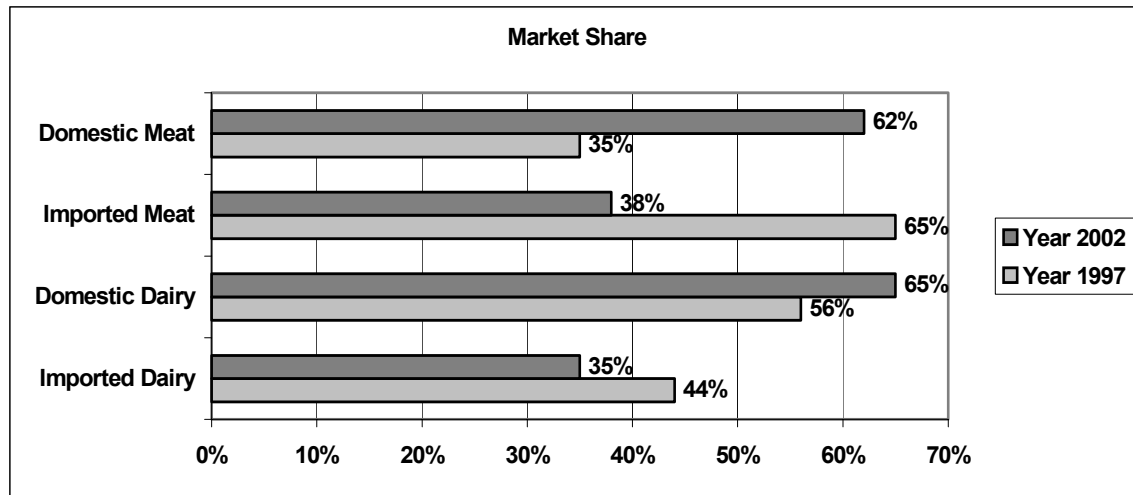
By all indications, MAMA has been a resounding success. One of the reasons why it has achieved its intended results is that the program has created incentives for each of the various actors involved in the marketing chain, from producers of inputs and sellers of outputs, to buyers and regulators of the final goods. Not only have producers and processors gained from increased production and sales, but consumers have benefited from the availability of less expensive, higher-quality, safer, and wider varieties of meat and dairy products. Retailers have benefited from a decreased number of returns and complaints about the meat and dairy products they sell. Even the Macedonian Government has gained from an improved dialogue with agribusiness through the Association of Private Meat and Dairy Processors, the National Food Retailers Association, and the local and regional sheepherders' associations.

Results at the firm level have been impressive and include:

- Significant increases in sales and profits in every year of the project for the majority of client firms;
- 40 companies broadening their product line with 162 new products:
- Meat: 9 companies and 76 new products;
- Dairy: 31 companies and 86 new products;
- Over 50% expanded capital investment (new factories and/or new production capacity) in years 2001 and 2002 alone;
- 223 new strategic partnerships being formed;
- 50% of firms reducing the cost of production;
- 37 qualifying for the SOQ, with 205 SOQ products;
- 20% of processors increasing the size of their workforce;
- 17 industry associations being formed;
- Of the 146 retail outlets the MAMA project worked with since 1999, 62 (42%) were new stores, and within 2002 ten action plans were developed for new store openings.

Industry-level results have been no less impressive. According to the State Statistical Office, from 1998 to 2002 Macedonian processors tripled their processed meat product sales from €8 million (\$9.3 million) to €27.5 million (\$28.8 million), and boosted their dairy sales by 44%, from €25 million (\$29.2 million) to €36 million (\$37.7 million). As a result, the share of Macedonian products as a percentage of the country's total meat sales has nearly doubled and the share of dairy products increased by 16%, as is shown below.

Domestic vs. Imported Market Share

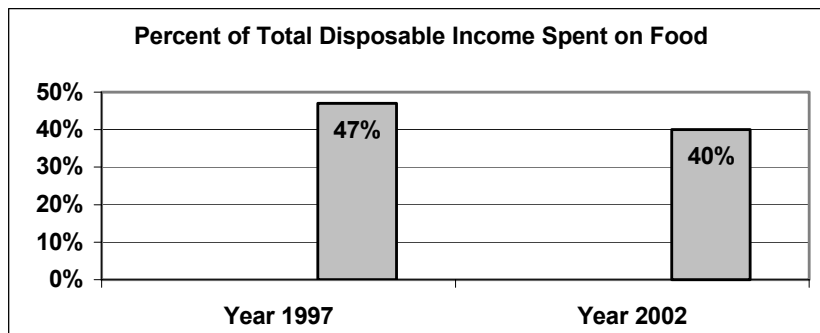


Just as important as this increase in quantity has been the enhancement in quality of the final product. Several factors have made this possible. First, raw milk and meat quality has increased due to the expansion of the domestic processing industry, whose increased raw material purchases have provided farmers with funds for much-needed investment in the upgrading of their production facilities. This investment, as well as the institution of a nationwide raw milk variable payment scheme based on quality, has resulted in an increase in raw milk quality from an abysmal average bacterial count of over 15 million per ml to less than 3 million per ml. Second, increased sales revenues have enabled client processors to invest over \$20 million in upgrading their facilities, purchasing new equipment, and improving their production practices through the adoption of over 100 new technologies. For example, whereas 60% of cow's milk and 90% of sheep' milk used in Macedonian cheese sold in 1998 was unpasteurized, by 2003 over 95% of cheese made from cow's milk and 50% made from sheep's milk was pasteurized. Third, MAMA's work with retailers to ensure that Seal of Quality products are handled and displayed in conditions that preserve their quality and maximize their shelf-life has benefited processors and retailers alike by lowering product returns and, in so doing, increased customer satisfaction with domestic products.

In addition to benefiting from increased quality, consumers have undoubtedly reaped dividends from the greater choice afforded by the introduction of over 200 new products. Depending on geographic area, consumer meat and dairy choices range from 250 products in 50 meat and dairy categories (Veles) to over 600 choices in 50 categories (Skopje).

Beyond increasing final product safety and quality, the project has fostered product standardization, which has helped boost consumer confidence that SOQ products will correspond to widely accepted and understood product definitions, thereby taking the guesswork out of purchasing decisions. Furthermore, increased availability of domestic varieties of meat and dairy products and improved operating efficiencies have led to

small but significant decreases in prices for the consumer. For example, consumer surveys have shown that the percent of disposable income that Macedonians spend on food products has declined over the course of the project, as is shown below.



It is important to note that consumers pay very close attention to the value of small increases (less than 10 denars), given the generally low disposable income in Macedonia. Increased competition in these high consumption categories has held increases to well below the inflation rate, placing pressure on the imported products, all to the consumers' benefit.

What's more, the activity has helped to improve the dialogue between government and the processing industry. By speaking with a unified voice through the Processors' Association, members have gained the attention of government, thus enabling it to better understand and more easily respond to the industry's needs. In addition, through the facilitation of production and regular testing of processed food products to standards that exceed legal requirements, the activity has complemented government efforts to ensure food safety. Furthermore, by developing the domestic food industry and thereby increasing tax revenue and employment, the program is helping the government to meet its economic objectives. Officials, who are concerned with gaining and maintaining the support of the electorate, welcome the fact that the high-profile SOQ marketing campaign emphasizes these positive developments to voters nationwide and reinforces national pride. As a result, the SOQ program has led the government to take the association and its members' needs more seriously. This has enabled the association to better communicate its message and has kept attempts at governmental interference in the SOQ activity to a minimum.

VI. Lessons Learned

When it embarked on the implementation of MAMA and the SOQ program, Land O'Lakes was in many ways entering uncharted territory. Although the building of consumer awareness and loyalty through quality assurance and industry promotion had long been a cornerstone of Land O'Lakes' success as a business, it was comprehensively applying this approach to economic development efforts for the first time. Not surprisingly, certain project activities did not go according to plan, expected timeframes did not always prove to be realistic, and unanticipated needs arose. Now that the SOQ approach has demonstrated its capacity for delivering results, it makes sense to reexamine the Macedonia experience and highlight some of the major lessons learned in order to facilitate improved future implementation. These findings are examined by the project component they address and presented in approximate chronological order of project implementation.

a. Overall Project Design

1. Ensure that an industry association owns the quality assurance activity.

The food processing industry is the most appropriate group to own a quality assurance program, such as the SOQ, since processors will benefit most directly from a successful program through increased domestic sales. Consumers and retailers do not have this same interest, however, since they can simply switch to imports if domestic products are not competitive, whereas governments in developing countries typically do a poor job of regulating food safety. Indeed, the SOQ program is needed precisely in those places where consumers have doubts in the government's ability or willingness to ensure food safety. Therefore, it is reasonable to expect processors alone to devote the effort to manage the SOQ activity and to finance its cost. An independent, democratic association is the best way to bring them together in a transparent process and to maximize industry participation.

2. Develop the association prior to the quality program.

Sustainability of the SOQ activity was never explicitly specified as one of the project's goals or performance targets. Nevertheless, apart from the fact that sustainability of development activities becomes a greater priority for USAID and other donors with each passing year, working toward sustainability is important in and of itself. In Macedonia, a desire to get the SOQ program in place as soon as possible may have led to excessive hands-on management of the process by project staff. This resulted in the facilitation of two parallel, somewhat separate processes of building an industry association and establishing a SOQ program, while leaving the task of linking the two for later. It would be preferable to instead grow an industry association and its management and leadership capacity and only then initiate the SOQ activity as an outgrowth of the association's existing mission. This approach would both increase the management's capacity and boost members' buy-in to the program due to their greater role in the shaping of the activity. While such an approach may require more time to get product certification up and running, project implementation to date has shown that association activities that

members themselves have chosen, and of which they thus feel a sense of ownership, are most likely to lead to sustainable, long-term results.

3. Design quality assurance activities to address the entire farm-to-market chain.

As many economic development activities have moved in a demand-driven direction and demonstrated positive results, some donors have begun to encourage a greater emphasis on assistance to agricultural processors than to producers. Part of the reason is that, because training in improving production efficiency is unlikely to be utilized if farmers do not have markets for increased yields, it makes more sense to work with food processors to increase their demand for raw material, thereby positively impacting both groups. While the main emphasis of the SOQ activity is on the processing level, it is important that all of the links in the farm-to-market chain be addressed. Efforts to improve quality at the processing level, for example, will achieve little if the quality of milk and meat used as inputs is not improved as well. Similarly, distribution channels, including retailers, need to be targeted as well, since the quality of a product that is manufactured properly may nevertheless deteriorate due to subsequent improper handling and storage. Therefore, in order to enable the food industry to increase the quality of products reaching the final consumer, it is essential to pursue activities that specifically address the role of ensuring and maintaining quality at each stage of the farm-to-market chain.

4. Choose scope of products to be included in quality program carefully.

When determining the product categories to be covered by a quality assurance program such as the SOQ, it is important to carefully weigh the risks and rewards. Increasing the number of product categories covered will increase the potential number of eligible products, thereby allowing for the potential generation of greater revenue and allowing the program's fixed costs to be spread over a greater number of participating businesses, thus boosting the activity's financial sustainability. However, opening participation to greater varieties of products can make association and SOQ management more difficult, and may lead to conflict. Some participants may feel that the standards are not comparable for products from different categories, and thus may be dissatisfied that unrelated products carry the same seal. In Macedonia, for example, some meat processors have expressed a belief that the standards that their products are held to exceed those for dairy products, whereas some dairy processors have articulated the opposite view. Also, if too many disparate products carry the seal, the effectiveness of the program's promotional efforts may be diluted. Of course, the ideal composition of the association may depend in part on the size of the industries being considered for inclusion. For example, while the Bulgarian meat industry is large enough to financially support its own stand-alone association, Land O'Lakes helped to push for the joint dairy and meat processors' association in Macedonia because these industries appeared too small to support two separate associations.

b. Association Development

1. Do not compromise standards in attempts to attract members.

One of the biggest initial concerns about implementing the SOQ was that it would be difficult to get the entire targeted industry on board. Association-building activities in developing countries often represent the first attempts to bring competitors from an industry together and get them to recognize their common interests. Because development organizations often seek to assist an entire industry, and not just selected enterprises, this can be quite a challenge. For reasons of pride or principle, some managers of large or particularly successful Macedonian enterprises have been reluctant to interact with managers from enterprises they perceive as "beneath" them. For their part, some individuals from smaller enterprises have been intimidated by their larger and more advanced competitors. As a result, some chose not to participate in the association, while others demanded special privileges to join.

As the Macedonia experience has shown, however, giving in to such requests would likely be both unnecessary and counterproductive. First, the managers of many big enterprises who initially were reluctant to participate eventually joined the activity anyway. Seeing that the SOQ program was providing competitors with tools to increase quality and communicate this message to consumers nationwide helped some processors realize quickly that they were needlessly forgoing an opportunity to boost their competitiveness. At the same time, emotions came into play as wounded prides resulted from seeing products from smaller or less-sophisticated processors being publicly promoted as superior. This led a number of enterprises to join the SOQ program once its promotional campaign began reaching consumers.

Second, not all applicants were successful in their first attempts to gain the Seal. While less sophisticated processors may push for less stringent standards because their small size or limited financial resources may limit their ability to ensure quality, the SOQ program will achieve very little if it does not push participants to not only maintain quality but improve upon it. It would be unrealistic to expect all processors to meet the SOQ standards from day one, but 100% certification is not the goal of the program. Rather, by combining the carrot of industry promotion with the stick of a strict but fair certification scheme, the program is designed to accelerate the process by which the public recognizes and demands higher quality. While many processors will adapt, the credibility of the SOQ demands that standards not be softened for those that do not.

2. Insist on transparent association leadership.

One of the most frequent concerns voiced by association members in interviews regards transparency of the management of the Seal of Quality process. Some members have said that they do not fully understand which decisions were being made by the group's leadership or how those decisions were being made. At times, MAMA took too much of this communication effort into its own hands when it was dissatisfied with board members' lack of initiative in tackling these tasks on their own. While management training and the hiring of an executive director greatly improved the situation, another option could have been to demand, as a condition of its continued support, that

management be more active in its communications with members and perhaps even meet certain transparency benchmarks.

3. Facilitate efficient association management.

Because voluntary, democratic organizations are a new concept in many developing countries, few board members can be expected to be familiar with tools such as Robert's Rules of Order. Therefore, an important part of the implementing organization's role may be to provide training in meeting management, as MAMA did. Such assistance brought about more productive and democratic decision-making. The creation of subcommittees of board members and other members also improved efficiency. For example, several current and former board members of the Macedonian association reported that significant time was wasted when officers from the dairy industry took part in technical discussions related to the meat industry and vice versa. The creation of separate dairy and meat subcommittees of the management board in late 2003 enabled board members to better concentrate on those areas of interest and relevance to their own businesses and has boosted management's efficiency.

The Macedonia experience has also demonstrated that the way that technical assistance in association development is organized is important. Because a sustainable SOQ program is not something that can be created overnight, it is important that there be as much continuity as possible in providing technical assistance. Building the association, as well as the certification and promotional components of the SOQ program, are complicated, long-term processes that demand a thorough knowledge of the in-country situation. MAMA was fortunate to engage consultants who stayed with the activity over the long haul and were able to build trusting relationships with beneficiaries. Therefore, it is recommended that overseas consultants for key project components be required to commit to conducting multiple assignments over the duration of the project.

c. Client Participation

One of the major lessons learned from project implementation was the cardinal importance of demanding extensive participant involvement in managing the SOQ program from the beginning. This should entail both managerial and financial buy-in. As the project's association development consultant has said, "The less the project staff does for the association, the more the members will do on their own." However, relinquishing some measure of control over the SOQ process is easier said than done. Because the development project's entire *raison d'être* may be to facilitate the implementation of the SOQ project, while this activity is but one of a number of quality improvement and promotional efforts undertaken by the members themselves, the development organization may display a greater sense of urgency to move the activity forward than does the industry association. This can be frustrating to project staff trying to achieve quarterly results, who may be inclined to do things themselves to make sure they are done right. Empathy for association members, who are volunteering their time and resources to this effort, as opposed to project staff, who are dedicated full time to the project and compensated accordingly, can also lead to project staff taking over responsibilities that the SOQ association itself should retain.

There are several reasons why the main effort still needs to be invested by association members themselves. First, association members simply will not learn how to manage the SOQ program if the development organization does it for them. Second, the project participants are in the best position to implement the project well, due to the simple fact that they, unlike the development organization, know best the ins and out of their industry. Third, for members to truly dedicate themselves to the activity, they must have significant control over the process. Without this sense of ownership, participants are unlikely to make the required commitment of time, energy, and financial resources. The following strategies are recommended to facilitate maximum participation by clients, while recognizing their limited resources:

1. Phase in client buy-in from the start of the project.

When MAMA began its efforts to facilitate development of the SOQ program, its main emphasis was on maximizing the number of enterprises joining the association and taking part in the SOQ activity. Lest processors prove unable or unwilling to contribute financial resources to a program that was untested in Macedonia, at a time when many of these enterprises were new, developing businesses, only minimal financial contributions were required of participants. Unfortunately, if a client is given something for free at first, it can be exceedingly difficult to turn him into a paying customer. Getting clients to dramatically increase contributions for a service that they have already received for several years is not easy. It can be made even more difficult if members have a general lack of understanding of the actual costs of implementing the program. In retrospect, it would have been helpful to:

1) Require greater cost-sharing from the start of the project. As a result, perhaps fewer businesses would have signed up for the program initially, but this would have had the added benefit of limiting participation to those that were truly dedicated to the activity. The practice of “buying clients” by providing them with free services may result in only short-term gains in membership numbers anyway. This is because some clients may lose faith in the program even *before* project funding runs out if they don’t see the activity as being sustainable over the long term. Indeed, as MAMA’s fifth year drew to a close, some SOQ processors reported that they weren’t pursuing certification for new products because of the uncertainty of the future of donor funding of the project. Without confidence in the ability of the program to survive without continued donor assistance, these processors were reluctant to expend additional time and energy on the activity, even if it continued to be heavily subsidized in the near term.

2) Involve the association in drafting and approving spending on SOQ activities. This would increase understanding of the actual costs of the program to beneficiaries. As a result, participants would have an incentive to approve only those activities that they view as essential, since the financial contributions required of participants would be a direct percentage of the program's cost.

3) Set client contributions equal to a percentage of total costs of implementing the program and phase them in according to a regular, pre-determined schedule. Such a schedule could be as follows: Year One: 25%, Year Two 50%, Year Three: 75%, Year Four: 100%. This way, participants would have a better sense of what their costs will be

in the future and be able to budget accordingly. Because the long-term goal of the program is program sustainability, not the reimbursement of all donor investment, it can be argued that one-time capital expenditures, such as building the food laboratory, not be included in the "program cost."¹ Rather it may make sense to require beneficiaries to move toward self-financing only those essential costs of the program that are expected to be ongoing, such as expenditures on marketing and the ongoing operation of the MAMA laboratory.

2. Require the association to hire an executive director.

As the governing organ of a democratic membership organization, the elected management board plays an important role in ensuring that the association addresses the needs of its members. Because it is made up of industry leaders whose prime responsibility is to manage their respective food processing businesses, the board simply does not have time to manage the day-to-day responsibilities of the SOQ program and other association activities. Therefore, it is essential that an executive director is hired to direct implementation of the board's directives. Despite Land O'Lakes' encouragement, it took over four years for the Macedonian association to take this step, due mainly in part to the expense and the perceived loss of control it entailed. However, members report a major increase in management's professionalism and organization over the twelve months since this change was made. Furthermore, the cost is minimal when divided among all association members. Therefore, it is recommended that future SOQ associations be required to hire and fund an executive director as a condition for project support.

d. Developing, Implementing and Enforcing Standards

At its most basic level, the SOQ program requires food quality and safety standards and a testing laboratory in which to enforce them. In Macedonia, as in many developing countries, the lack of confidence in the safety of domestic food products had more to do with lax enforcement than with the government standards themselves. Therefore, the standards adopted by the SOQ program, although somewhat stricter than existing state regulations, did not initially represent a great leap in quality and safety requirements. Because of a lack of confidence in the fairness and transparency of government testing procedures, however, the establishment of an independent laboratory was deemed essential, despite its cost of nearly \$50,000 in equipment, plus several thousand dollars in monthly rent and salaries. Some of the lessons learned from this experience include the following:

1. Minimize impression that an independent laboratory may be seen to pose to state labs.

Establishing an independent food laboratory when a state lab already exists can be problematic, especially if the state facility is under-funded and underutilized. Government officials in charge inevitably have a financial interest in the SOQ program

¹ Obviously, sustainability in and of itself will not necessarily increase the health of the industry. However, it is unlikely that processors will continue to voluntarily fund an activity that they do not perceive to be beneficial to their businesses.

utilizing the state laboratory for testing, and can be expected to pressure it to do so. Because suggestions that the state laboratory's processes are unreliable, or at least viewed by the public in such a way, could harm relations between the project and the government, and potentially jeopardize the host government's attitude toward the independent lab, the project needs to take a conciliatory stance. This is also necessitated by the likelihood that non-SOQ testing by the MAMA lab will take some business away from the state laboratories. The approach utilized by MAMA was to require that once initial testing of a new SOQ product is completed by its own lab, the sample be forwarded to the State Veterinary Lab for confirmation. This both provided desired revenue to the government and acknowledged its ultimate authority to determine adherence to state standards.

2. Control MAMA laboratory technician salary costs.

The staff of the laboratory represented a significant cost of the SOQ program. To some degree, these expenses were necessary, since a reliable and transparent testing process requires talented and trusted lab technicians. Although the lab's two technicians had various contractual relations with MAMA, they are all essentially treated as staff of the project, and compensated accordingly. While regular project staff salaries were defensible in that the going rate for development professionals in Macedonia was higher than for most employment sectors, the market rate for laboratory technicians was much lower. Moreover, while other project employees were playing but a temporary role in getting the activity up and running, and thus their salary levels did not set a dangerous precedent for future implementation costs, the lab technicians were essential to the ongoing operation of the SOQ program. Thus, the compensation provided to MAMA lab technicians was a real obstacle to the program's efforts to achieve sustainability, since it may prove to be difficult to get these individuals to accept pay cuts in the future and stay with the lab. It might be preferable instead to treat laboratory staff as employees of the association, not project staff. This could facilitate the paying of market rates for their services without raising uncomfortable questions among MAMA staff regarding compensation equity. That said, resources should not be spared in providing this staff with top-notch training, since this is a direct investment in the lab's integrity, which serves as a the cornerstone of the SOQ program's credibility.

e. Assistance to Producers

As previously noted, one can increase the quality of output significantly only if one starts with high-quality inputs. Thus, while the focus of the SOQ program was, first and foremost, on the processing level, it was necessary to devote some project resources to assistance to producers as well. Two strategies played important roles in the project's efforts in this area:

1. Coordinate work with producers through SOQ processors.

Because the end goal of the project was to increase the quality of processed livestock products, the project limited its producer assistance to those farmers who market their production through participating processors. By working back through processors, the

project identified the producers who were most important to client processors, or whose production was in need of the greatest improvement.

2. Assist processors to create incentives for increased production quality.

Producer assistance alone may not produce much of an effect. Farmers will upgrade their practices only if they have an incentive to develop improved quality production. The Macedonian association created this incentive by developing and adopting a scheme by which processors voluntarily began buying milk from farmers according to a payment plan that entailed a 10% premium for milk that exceeded certain hygienic standards and a similar payment reduction for sales of milk that did not meet a lower threshold. As a result of intensive lobbying efforts in 2001, the association helped to bring about the government's enactment of legislation to make this payment scheme mandatory.

f. Promoting the Seal

1. Maximize association involvement in developing and funding the SOQ marketing campaign.

Although the SOQ marketing campaign was highly successful, the association's lack of involvement in its design is a concern. Because of the meat and dairy industry's limited expertise in modern marketing and promotion, as well as initial difficulties in getting some members to come to agreement when given an opportunity to contribute, the project began soliciting less involvement from association members. As a result, their role was limited to providing a final sign-off on completed advertising and promotional efforts. Considering that the project, not beneficiaries, fully funded SOQ marketing efforts, clients had little reason to complain. However, everyone would have benefited if the association had both participated in the design of the campaign and funded a percentage of its costs. While fears that the association's input would have slowed down and complicated this effort reflected real concerns, there is simply no alternative way to prepare organizations to take over management and financial responsibility for activities such as the SOQ's marketing efforts once donor assistance is discontinued.

2. Deepen public understanding of the SOQ process.

While the statistics cited above indicate a high level of basic awareness of the Seal, a much smaller percentage of consumers demonstrated a thorough understanding of the program. For example, only 36% of consumers reported knowing that the association of Private Meat and Dairy Processors stood behind the Seal. Thus, while the campaign effectively conveyed the message that it designated quality, it was less successful in communicating why the products it certified were better and describing the certification process. Part of the problem undoubtedly was related to the development of a government initiative to encourage consumers to buy Macedonian goods not long after the SOQ had been introduced. That campaign, while not limited to food products and lacking a quality certification component, featured a logo quite similar to that of the SOQ program, which created some confusion among consumers. Nevertheless, over 80% of consumers reported buying products with the Seal on a regular basis. Yet, even more markedly positive changes in consumer buying patterns could have been achieved had the project placed a greater emphasis on building consumer understanding as opposed to

simple awareness, and had its efforts to coordinate the campaign with the government's been successful.

3. Devote funds to marketing efforts at a sustainable rate.

As important as it is to communicate the SOQ message to consumers, it is possible nonetheless to overspend on marketing activities. MAMA, for example, spent a large share of its funds budgeted for promotion early on, leaving few resources to devote to maintaining consistently high levels of consumer awareness of the SOQ toward the end of the five-year project. Consumer awareness actually peaked in 2001, after a particularly intense phase of the campaign, and was somewhat lower subsequently.

While this initial burst of promotional activity achieved program objectives in the short term, it was in some ways detrimental to long-term goals. First, this major investment led to unrealistic expectations of MAMA's future levels of support. When these marketing efforts were cut back during the final two years of the project, enthusiasm for the program was dampened among some participants, particularly among those whose products had achieved certification only after the first major wave of the campaign had been completed, and therefore did not benefit from the same level of promotional support. Second, the instant results produced by the initial campaign masked the actual costs of the SOQ activity and the level of cost sharing that would subsequently be required of participants. Without even making a financial investment, many processors suddenly benefited from a food promotional campaign conducted on a scale unprecedented in Macedonia. It may have been preferable to ramp up the scale of promotional activities more slowly, in line with the increasing numbers of certified products and the actual revenue generated through testing and certification fees.

4. De-emphasize advertising in favor of lower-cost promotional activities.

About two-thirds of the program's marketing dollars was devoted to advertising, of which two-thirds was spent on relatively high-cost television commercials. While market research indicates that television is the most effective way to quickly reach a wide audience in Macedonia, a promotional mix that placed more emphasis on other approaches would have reduced costs and might have conveyed more extensive information. Increased use of in-store product sampling, sponsorship of the teaching of health and nutrition topics in public schools (including the important role of dairy products in children's diets), and a greater focus on cultivating relations with the press on public health issues related to the consumption of hygienic products could all have helped to increase awareness of the Seal at minimal cost. Perhaps because of the major advertising campaigns undertaken by the project, association members did not fully grasp the understanding that marketing is not just advertising, nor feel a sense of urgency to dedicate time and energy to the less flashy efforts they could have pursued on their own. Were the project to require financial contributions from members for each phase of the marketing campaign, however, it seems likely that clients would have displayed much greater interest in pursuing low-cost promotional activities.

5. Leverage association members' own marketing efforts to promote the SOQ.

Another underutilized low-cost resource for promoting the Seal was the clients' own advertising and promotion. While many member enterprises conducted their own advertising, some did not utilize this as an opportunity to highlight their participation in the SOQ program. Project staff reported that this was a result of processors' reluctance to spend their own resources on efforts that might have benefited their domestic competitors as well. To help them overcome this reticence, it might have made sense for the association to require members to incorporate the Seal in their own promotional efforts, or to adopt a system to credit some portion of the costs of such voluntary promotion against the member's dues or other association fees. The author's discussion of this latter approach met with positive feedback from a number of leading association members. Even a brief mention that a product is SOQ-certified, or the display of the Seal at the end of a television spot or in the corner of a print ad, could have bolstered awareness of the program.

6. Strengthen enforcement of SOQ usage.

A threat to the integrity of the Seal was its use on products that had not undergone certification, or had had it revoked. According to the program, a product retained the right to carry the Seal only if it continued to successfully undergo monthly testing. However, because the Seal was typically incorporated into the product's labeling or packaging, and these materials are ordered in bulk, there often was a large delay between the time when the SOQ was awarded or taken away and when the packaging was updated. When a product was awarded with the Seal, the processor typically used up all of its existing inventories before it ordered new packaging with the Seal on it, and if certification was revoked, products usually continued to be sold with the Seal on them until all of the packaging stocks were depleted. While only two processors had Seals revoked, one of them has a company store in central Skopje that continued to display the Seal. The integrity of the Seal simply demanded that the association establish stricter guidelines regarding its use and take enforcement more seriously.

7. Adopt display guidelines for the Seal.

The integrity of the SOQ program also depended on the quality and consistency of the Seal's appearance. However, processors did not always reproduce the SOQ with high-quality graphics, the original colors or at a standard size. In fact, some processors developed versions of the Seal with words that were too small to read, while others changed the logo's typeface and orientation. As a trademark of the association, the Seal is an asset that must be handled with care. Just as Land O'Lakes has a manual for the use of its Indian Maiden logo and other registered trademarks, the association adopted guidelines for the use of the SOQ. However, they were not always sufficiently enforced. An option would have been to have the association arrange for the printing of labels with the standard Seal on them and require that only these labels be approved for designating SOQ products as such. In addition to ensuring the Seal's standard appearance, this would have permitted processors to adapt packaging immediately when certification was awarded or revoked. In addition, sales of the labels could have generated additional revenue for the association.

g. Assistance to the Retail Sector

1. Use retail assistance to help ensure SOQ product quality.

Initially, the Seal of Quality program was not designed to address the retail sector. Once the activity was operational, however, certain quality issues began to arise with SOQ products. Investigations identified inadequate retailing practices as the most frequent cause. As MAMA helped producers and processors to upgrade their quality control processes, retailing emerged as the weakest link in the farm-to-market chain. For example, dairy and meat products were often stored at room temperature for extended periods of time after delivery and prior to placement in display coolers. These coolers, in turn, often did not maintain product within the required temperature ranges. In response, a department to coordinate assistance to the sector was established toward the end of the project's second year.

2. Leverage retail assistance to improve product marketing.

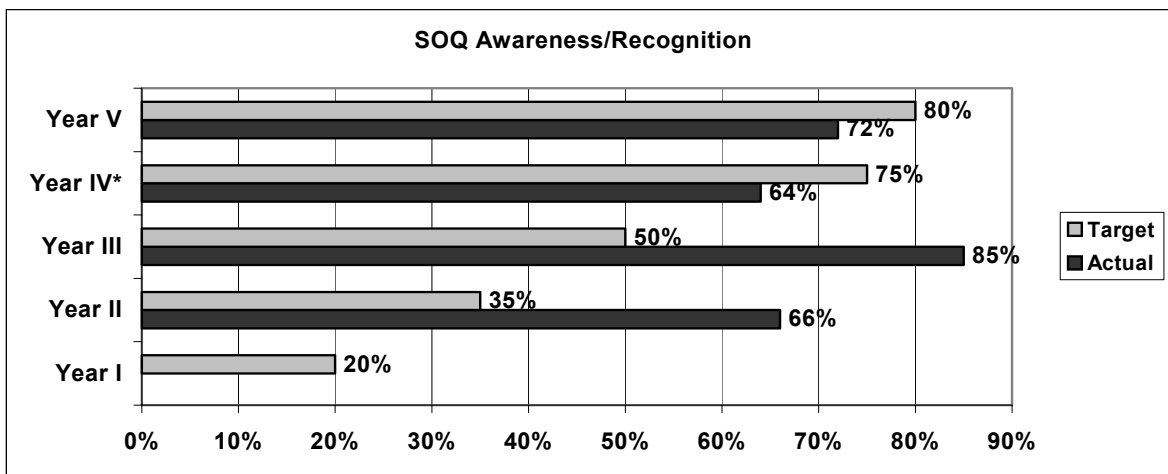
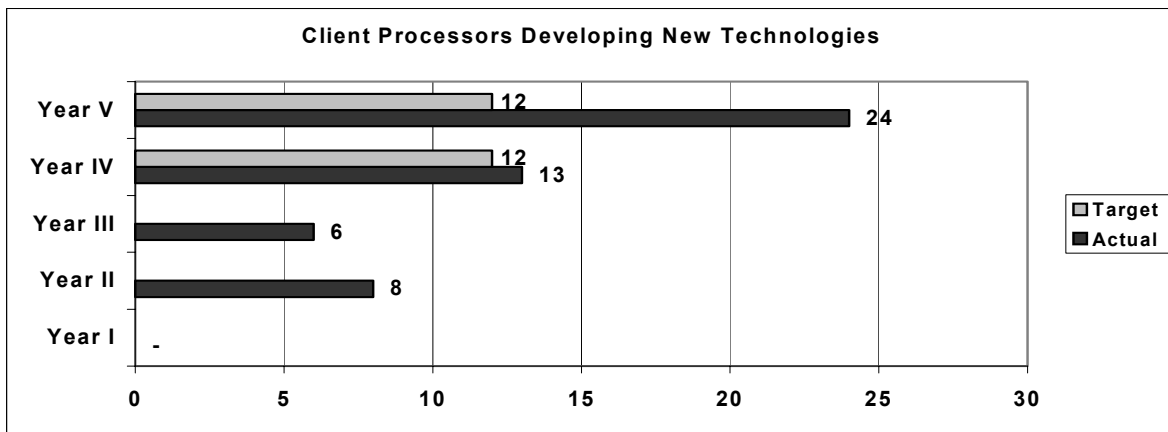
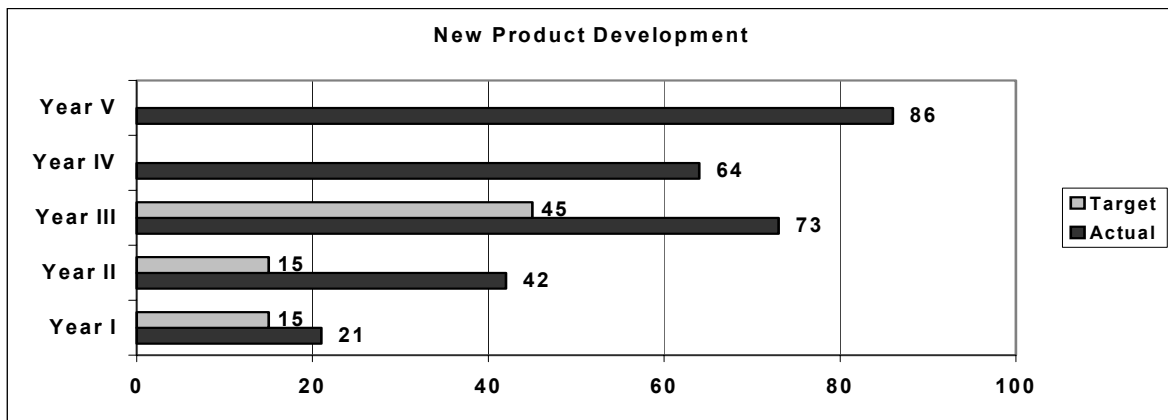
It proved especially important for the project to work closely with retailers because their outlets are the place in the marketing chain where consumers and SOQ products come together. Prior to the establishment of the Retail Department, these outlets were underutilized as a marketing tool for the program. Project assistance led to the revamping of the presentation of SOQ products at participating retailers so that the displays were more attractive and easier to find. Increased use of SOQ posters, signs, and the wearing of promotional clothing items by retail staff also raised the SOQ profile, and training of retail employees resulted in new advocates for the campaign. As a result, not only did retailers become more likely to steer customers to buy SOQ products, but they also became more likely to carry these products in the first place. It is worth noting that Macedonian retailers embraced the campaign and warmed to the concept even more quickly than did processors, because they saw that SOQ products were sought after by consumers and less likely to be returned due to product defects than other meat and dairy products.²

² In fact, enthusiasm for the SOQ concept is so strong among retailers that they formed a retailing association on their own and are now considering initiating their own SOQ program to certify those retailers that meet product handling, sanitary and other industry standards.

Attachment A

GRAPHS OF SELECTED PROJECT RESULTS

Selected MAMA Results During the Implementation Period



* Measured value: “top of the mind” awareness

* Estimated SOQ product usage level used as Year III target

